



2005 Bond Referendum

Frequently Asked Questions

What are general obligation bonds?

General obligation bonds (GO bonds) are a method of borrowing money by states and local governments, similar to a mortgage, to raise funds for public projects. The City borrows from the bond holders and pledges to pay it back with interest over a predetermined number of years (usually 20). They are unique in that they are backed by the full faith and credit of the issuing government, meaning that the government commits its full taxing authority to paying bondholders.

GO bonds give cities or states a tool for raising funds for major capital projects that will not provide direct sources of revenue such as roads and bridges, parks and equipment. They are typically used to fund projects that will serve the entire community. GO bonds allow a City to spread substantial costs out over a longer period of time. The amount of tax increase needed to pay for such projects on a pay-as-you-go basis would be prohibitive.

General Obligation bonds require the approval of the voters and the Local Government Commission, which ensures that cities do not take on more debt than they can safely pay back.

Why does Durham get such a good interest rate on general obligation bonds?

Cities are evaluated by three different national rating organizations (Standard and Poors, Moody's Investor Service, and Fitch, Inc.) that study a city's capacity to pay debt. In the last ratings summary, Durham received the highest possible rating from each of the organizations. This is known as a "triple A" or "AAA" rating. The better the rating, the lower the risk to borrowers, and the lower the interest rate charged to the city.

How will the City pay back the holders of general obligation bonds?

The primary reason municipal general obligation bonds are low-risk investments is because they are backed by the credit of the city issuing them. This means cities can use funds raised from various sources, including taxes. Durham will use a variety of revenue sources to pay its debt, with a majority of revenues coming from property taxes, sales taxes, charges for services, and state collected local revenues.

Will my taxes go up if I vote yes? How much?

The issuance of General Obligation bonds does not guarantee that tax rates will be increased. A number of factors determine the property tax rate including other revenue sources (such as sales tax performance) as well as costs for services and citizen expectations. The City Council annually sets the tax rate to deliver services at a level that they believe is appropriate to meet community needs. If no other changes to revenues or the cost of services were to take place, and if property taxes alone were used to pay debt service on the GO bonds, then the tax rate would need to increase a total of 5.25 cents over the life (20

years) of the bonds. City government may make various adjustments to other revenue sources and to service levels in an attempt to minimize the impact of debt service on the property tax rate.

Will all of these bonds be issued at one time?

The City's plan is to issue the bonds as needed over a six year period. Voters give the authority to issue bonds as needed. The proceeds of the bonds will be issued as staff is available to properly manage projects, and as markets yield to best opportunities to reduce costs. The City has been working for several years to put in place industry best-practices to ensure that projects begin and end in a timely fashion. The City does not want to issue bonds sooner than they are needed because we must then pay interest on the issued debt. The management plan will ensure that funds and staff are available when a project is ready to begin.

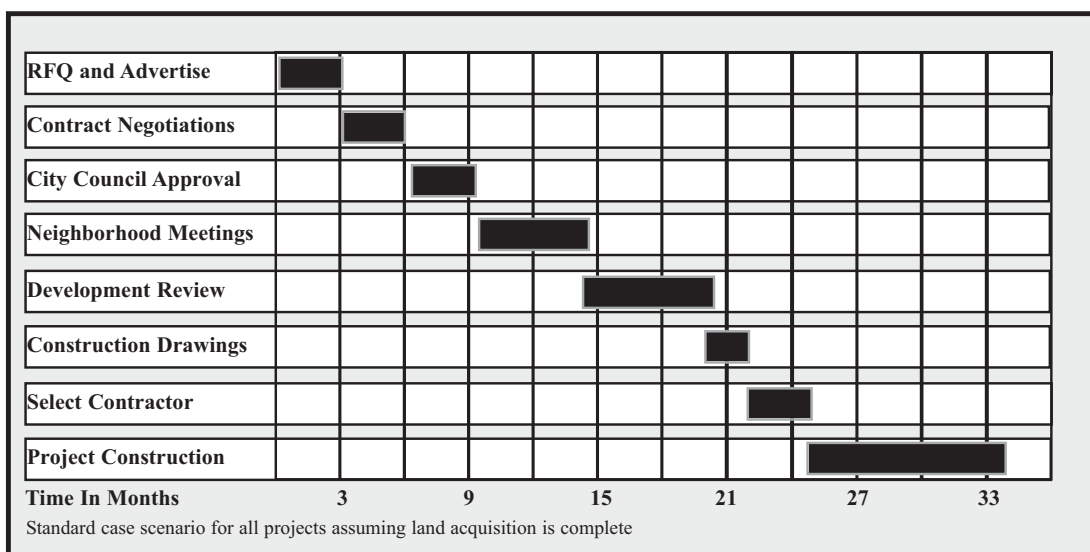
It is also prudent to look into all other funding sources such as federal or state grants before issuing bond debt.

How much debt can the City of Durham take on and how much is there now?

A number of factors are considered in determining how much debt the City can afford. State law sets a maximum legal limit for municipal debt based on the assessed value of property. Currently, the City's total debt is only 25.4 percent of the legal limit. The most important consideration is the annual cost of debt service and its impact on the City's operating budget. The City has established 12 percent as a target upper level for debt service as a percentage of the operating budget. If the referendum is successful, using conservative estimates for interest rates and the timing of future debt issuance, it is estimated that the City would need to raise tax rates by 2 cents in fiscal years 2006-07 or 2007-08 to stay below the 12 percent target.

If these bonds are approved, how long will it take for the people of Durham to start seeing progress on these projects?

Different projects will have different start and end dates depending on their complexity and the level of planning and design accomplished to date. The City has worked diligently to put forward projects that are ready to move to construction. Most will begin within one to three years of the bond referendum.



This graph shows the average timeline for City new construction projects from the initial request for quote through construction. Many steps must be taken before construction begins and the entire process can take up to 34 months for completion.

How did the City come up with this list of projects?

The 2006 Capital Improvements Program (CIP) included input from a City staff committee that reviewed projects and developed a scoring system using the feasibility and need for projects. A Citizens' CIP Advisory Panel of 28 community leaders was also involved, learning about the projects and the City's needs. The projects selected were a compilation of the projects that met the priorities determined by the citizens' advisory council and deemed feasible and cost effective by the City staff. The City Council voted to include the recommended \$110 million in projects on the ballot.

Has all of the money from the 1996 bond referendum been spent?

The City has spent approximately \$75 million of the \$86 million approved in 1996. The City received an extension to use this funding and plans to issue the remaining available amount in August 2006.

Are the funds to staff and maintain these facilities going to be there after they are built?

The City staff has been diligent in its evaluation of the projects listed and every attempt has been made to anticipate the cost of maintaining new projects and the cost of staffing. These costs have been incorporated into total project cost estimates. Bond funds may not be used to pay operating costs which must be accommodated within the City's annual operating budget.

Do I have to vote for all of the propositions?

No. Each of the eight propositions will be considered individually and each should be voted on separately.

What happens if the bonds do not win approval?

Many of the projects will have to be completed using alternate funding sources. This will simply cost the City and its taxpayers more money since GO bonds are the least expensive way to finance such projects. Some projects will be delayed, which will mean reduced services to citizens. Other projects will be postponed indefinitely or canceled permanently.

How does the debt service (interest) Durham pays compare to other North Carolina Cities?

In February 2005, the North Carolina Department of State Treasurer showed Durham with the second lowest outstanding and authorized general obligation debt to appraised property value of the state's six largest cities. Durham's debt/property value was listed at 1.02 percent, with only Raleigh's lower. It can also be looked at in a debt per person formula with Durham owing \$749 per person, while Greensboro is at \$933 per person, Charlotte, \$1,045 and Raleigh at \$734, according to June 2004 figures.

Where can I get more information?

For more information, visit the City of Durham's website at www.durhamnc.gov and click on the "2005 Bond Issue" link. Or call Durham One Call at 560-1200.

Did You Know?

- ✓ **The City of Durham enjoys a AAA Bond Rating - the highest possible rating that allows the City to borrow money at the lowest interest rate.**
- ✓ **Durham has received clean external financial audits and has consistently been awarded for excellence in financial reporting.**
- ✓ **General Obligation Bonds are the cheapest and most cost-effective way to borrow money for major projects.**

For more information about the municipal bond referendum
visit the City of Durham website at www.durhamnc.gov or
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This information is provided by the Office of Public Affairs, 2nd floor, 101 City Hall Plaza, Durham, NC 27701